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SUMMARY OF CONTENTS

THE SOVIET WORLD

Soviet and Chinese comment on the fourth anniversary of the Sino-Soviet treaty of friendship and alliance provided further evidence of variance between Moscow and Peiping on a possibly significant point, since doctrinal differences are sometimes the first signs of disagreement among Communists. Chinese propaganda continued to assert, as it has since last October, that the Peiping regime is in the stage of "transition to socialism." Soviet propaganda this month reprinted this assertion, attributing it to Mao Tse-tung, but continued to avoid originating comment which would sanction the Chinese claim.

There is an apparent parallel between this Soviet behavior and Moscow's position between 1949 and 1951, when Chinese spokesmen were asserting that "Mao's road" was a "model" for other Asian Communist movements and Soviet media tended to ignore or minimize the Chinese line. Inasmuch as the Chinese explicitly state that their "transition to socialism" is being made possible by Soviet aid, Moscow may wish to discourage excessive Chinese hopes. Peiping's national construction program has already been cut back, in part by an apparent failure to obtain as much Soviet aid as desired, and in part by poor planning and disappointing food crops.

In China, the party politburo, reporting to the first plenary session of the central committee since 1950, emphasized the need to "strengthen party unity." It left obscure whether chairman Mao Tse-tung will stage a public purge of party leaders or follow his past practice of quietly demoting those in his disfavor.

Vice Chairman Liu Shao-chi, who read the politburo report in Mao's absence, made clear that the "reorganization" of the party, under way since 1951, will extend into the leadership. Arguing that "imperialism" will seek agents inside the party like Beria and Chang Kuo-tao, a leader expelled in 1938, Liu specified that factionalism in the party was the "greatest danger." He went on to assert that some Chinese Communist leaders still fail to understand the importance of "collective leadership" and regard their own regional or departmental commands as an "individual inheritance or independent kingdom."

The plenary session approved the convening of a party conference during 1954 to discuss Peiping's national construction plan and "other relevant questions." This conference might be a national congress, which is supposed to be held every three years to elect a new central committee but in fact has not met since 1945. A new election would be expected to confirm the rise of several new leaders in recent years and to formalize the fall from power of some of the eight central committee members whose status has been in doubt for some time.

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SIGNIFICANCE OF THE BERLIN CONFERENCE FOR SOVIET POLICY

Soviet policy at Berlin indicated no intention to retreat from positions of strength in Europe in order to achieve the strategic objective of weakening the Western alliance. The agreement on a conference to discuss Korea and Indochina apparently reflects a decision by Moscow that its greatest chance for diplomatic success lies in Asia.

In consenting to the Geneva conference, Molotov abandoned two key points on which he had been adamant from the beginning of the open sessions in Berlin. The first was the demand that Communist China be accorded great-power status at a five-power conference. The second was that this conference should discuss measures for reducing international tension without regard to geographical area.

Molotov's decision on China was apparently based on a realization that in the effort to block French ratification of EDC and forestall greater American intervention in Indochina, the USSR would have to offer something more tangible to France than the possibility of negotiating a settlement of the Indochina war through a five-power conference at some uncertain future date. The USSR probably anticipated, however, that once a date was set, the French government would neither submit EDC to a final test in parliament nor try seriously to break the military stalemate in Indochina until after the conference.

Moscow's concept of the role of an international conference in settling the Indochina war has been kept vague and obscure. Early in the Berlin conference, Molotov said that such a conference could play "the part of a mediator in questions which interest us and also in questions where its role of mediator can prove useful." Moscow may have decided that the only way to forestall an expanded war is to open negotiations for a truce.

In order to draw the Western powers into negotiations on Indochina, Moscow has no choice but to agree to their demands that the Korean question be given top priority in any discussion on Far East issues. The formula for the Geneva meeting

avoids a basic issue which caused the deadlock at Panmunjom--the status of the USSR at a Korean political conference. Moscow had consistently rejected the United Nations' recommendations on the composition of the conference and had insisted on participating as a neutral along with four other Asian neutrals, rather than sitting on the Communist side of the table.

Molotov's consent to a discussion of Korea at Geneva does not indicate any greater readiness to negotiate seriously for a final settlement. The Communists apparently are still satisfied to maintain the present division of Korea.

The inflexibility of the Soviet proposals on Germany again clearly reveals that the USSR cannot afford, or believes it unnecessary, to withdraw from East Germany. Molotov repeated his familiar plan for a provisional government to conduct elections free from four-power control or "monopolist" influence. He demanded simultaneous negotiations on a peace treaty, and submitted a draft with only minor changes from that first proposed by the Soviet Union in March 1952. Only Molotov's proposal for troop withdrawal within six months was new, but its importance was nullified by provisions to retain small contingents and to return troops to Germany whenever they were needed for security.

The Soviet plan for European security, although apparently conceived as a grand gesture, failed to lure Western Europe away from EDC and NATO. It marked a change in attitude in that for the first time the USSR dropped the bilateral approach based on the wartime treaties with Britain and France and suggested a multilateral security system. It is consistent with the recent Soviet diplomatic campaign to convince Western Europe that it could best achieve security in alliance with the USSR and without American participation. Molotov has since indicated that he will push his "European security" proposal, but the Soviet Union appears seriously to exaggerate the appeal in Western Europe of any plan calling for American withdrawal.

Molotov described EDC as the primary bar to a settlement in Austria. He said that it was EDC which threatened to revive German militarism and bring about the danger of an Anschluss, requiring the continued protective occupation of Austria after a treaty is signed. Molotov conceded that this occupation should be reconsidered again no later than

next year, but rejected an Austrian proposal that it end in June 1955. He further demanded a prohibition on Austrian participation in military alliances, and later conceded that this could take the form of an Austrian declaration attached to the treaty.

The Kremlin apparently did not believe it necessary to offer an Austrian settlement at Berlin to prove to the West its desire to lessen international tensions. Austria is to remain a chip in a play for larger stakes. The Kremlin apparently calculated that it could afford to maintain the status quo in Europe while it turned attention to Asian matters which offered greater potential for dividing the Western allies.

FRENCH POLICY ON INDOCHINA BETWEEN BERLIN AND GENEVA

The scheduling of the Geneva conference, which considerably enhances the prestige of the Laniel government, will probably afford only temporary relief from the rising pressure to end the Indochina war.

The French press and public are increasingly pessimistic over the military stalemate. The government was able to stave off the effects of the recent unfavorable news from Indochina only because of the hope that the Berlin conference might lead to a solution. General Navarre has been obliged to give first consideration to political factors at home, and the outright defeatism expressed by the chiefs of staff of the French army and air force on their recent trip to Indochina indicates that the public's feeling of frustration is now echoed by the military.

The Laniel cabinet has been sharply divided and Defense Minister Pleven, who is returning this week from a personal inspection of the Indochina situation, has favored a build-up in Europe over increased efforts in Indochina. Pleven's report and the ensuing cabinet discussions may indicate next week how government thinking is evolving. Apparently only evident Communist unwillingness to seek a settlement at Geneva can win support for a prolonged military effort, and even then some assurance of victory will be imperative.

Navarre stated publicly on 19 February that American-directed training of the Vietnamese forces is unthinkable, and Paris, largely for fear of giving a pretext for Chinese intervention, still firmly rebuffs any suggestion that American troops may be necessary. That the latter position may change, however, if the Geneva conference removes any hope of a negotiated peace with the Chinese or the Viet Minh, is suggested by the remark made last week to the American consul in Hanoi by the French secretary of state for the army, Pierre de Chevigne.

Stating that the alternatives in Indochina are now a negotiated settlement or a "total war" beyond France's capacity to fight, De Chevigne hinted that he would not be averse to internationalizing the war. He did not elaborate, but negotiations could be tantamount to capitualtion and his statement may thus foreshadow a French request for UN intervention. It is more likely, however, that the United States would first be asked to furnish troops.

MIDDLE EAST REACTION TO THE PROPOSED TURKISH-PAKISTANI PACT

The announcement by Turkey and Pakistan on 19 February that they intend to negotiate a treaty of cooperation, open to other countries, caused no strong reaction in the Middle East, largely because it had been anticipated in widely circulated news stories. Allegations are freely being made in Middle East press comment, however, that the whole affair is an American arrangement. When the formal agreement is announced, additional unfriendly comment may be expected.

In Pakistan, the pact with Turkey is considered primarily a device for obtaining American arms, and the principal reaction, official and public, seems to be relief that the way is open now for military aid to become a reality. On 22 February public announcement was made in Karachi that Pakistan was requesting military assistance from the United States. Military and political circles, however, will probably be disappointed over the size of the contemplated American assistance -- tentatively placed at $20,000,000 -- unless assured that the amount is only a beginning.

Announcement of the coming pact was anticlimactic in India, where the peak of emotional response had passed with earlier reports. Nehru's public utterances on the subject were mild, and he contented himself with characterizing the developments as "a step which adds to world fears and tensions." The secretary general of the Ministry of External Affairs stated that the agreement would not improve Indo-Turkish relations. Although India will continue to view a pact and any military aid to Pakistan as inimical to its plans for expanding influence in the Near East, it is unlikely to be able to affect developments.

The Afghan ambassador in Washington stated that Afghanistan would wish to adhere to such an association if and when it settles its differences with Pakistan, the most serious of which is the Pushtoonistan problem. Kabul will probably not adhere to a pact in the near future, however, because of fear of the pressure which might be applied by the Soviet Union. In any event, it would probably demand an American guarantee of its borders as a condition.

Although Iran apparently approves cooperation between Turkey and Pakistan, the foreign minister was noncommittal when notified, except to indicate pleasure that other states could join the pact later. Iran is unlikely seriously to consider

joining a regional defense arrangement now, although it may take this occasion to press for more military aid. Any Iranian decision to join such an organization would require a major policy change, and Tehran would probably demand unusually strong American assurances of economic, financial, and military support.

Arab reception of the cooperation agreement and aid to Pakistan has been mixed. Prime Minister Jamali of Iraq indicated great sympathy for the purpose of the pact and welcomed enthusiastically an invitation to join, but popular opinion seems unfavorable.

Syria may bolster previous hostile comments with references to Western imperialism and the need for Arab solidarity. Saudi Arabia is known to be opposed to the pact but so far has been officially silent. There have been no significant comments from Lebanon and Jordan.

Egyptian reaction has been decidedly negative. The pact is interpreted as defection to the West and as a Western effort to break Arab unity. The minister of war stated that it would not be in the interest of Egypt or any Arab country to join the agreement before the Arab countries gain their full freedom. The government-controlled newspaper Al Misri denounced the agreement editorially and warned Iraq against joining it. The newspaper concluded that all Arabs should cooperate to defeat the American efforts to undermine their front.

Israel is strongly opposed to any Middle East defense arrangement which would strengthen the Arab states, and has expressed concern over the possible inclusion of Iraq in the Turkish-Pakistani pact. The Israeli minister at Ankara asked for assurances that Turkey would not furnish Iraq with arms. If Iraq ultimately joins with Turkey and Pakistan, Israel will probably ask the West for firm assurances that the balance of power will be kept intact between it and the Arab states.

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"NORMALIZATION" BRINGS NO BASIC CHANGE IN YUGOSLAV-SOVIET RELATIONS

Relations between Yugoslavia and the Soviet bloc have been partially "normalized" since Stalin's death, but there is no reliable information to support stories of an imminent rapprochement. Doubts about Yugoslavia's future orientation have been abetted by the Trieste crisis and the purge of Vice President Djilas, but neither provides indications of any basic change in Belgrade's international position.

The trend to normalization, initiated by the Soviet Union, has so far included the resumption of normal diplomatic representation, the virtual cessation of border incidents, accords on certain Danube River problems, and a Yugoslav-Bulgarian railroad agreement.

The volume of anti-Tito propaganda from the Orbit is smaller and the tone somewhat less venomous than prior to Stalin's death, but Tito and his regime continue to be attacked as "exploiters and Western flunkeys." The trade embargo continues, although Belgrade recently expressed willingness to resume limited trade if the Orbit will make major concessions.

The USSR's policy toward Yugoslavia appears to be a part of the effort to reduce tension between East and West. It does not appear to envisage a specific attempt to bring Belgrade back into the Orbit, although it has included some maneuvers designed to arouse Western suspicions of the Belgrade regime.

There is no reliable evidence to contradict repeated statements by Yugoslav leaders that they would welcome normal relations, but would refuse to return to the pre-1948 basis. They have stated that Moscow has been forced to change its methods to some extent as a result of internal crises. They maintain there is no proof that this is anything more than a tactical shift in Soviet policy, which, however, should be exploited.

The Anglo-American decision to hand over Zone A of Trieste to Italian administration struck the Yugoslav leaders as a "diktat," and their reaction was strictly in character. The lack of consultation prior to the act shook their confidence in Western intentions, but it is doubtful that the attitude of the top leaders such as Tito and Kardelj was permanently changed. The West's subsequent retreat from implementing the 8 October declaration and its willingness to negotiate, furthermore, helped restore the previous Yugoslav attitude of cautious, hardheaded cooperation.

Djilas' removal as a right-wing deviationist from the top of the Yugoslav hierarchy provided no evidence that he was purged because he was too outspokenly anti-Soviet and hence a barrier to closer relations with the Orbit. An intensified campaign inside Yugoslavia against Western influences, particularly the United States information programs and the church following his ouster may, however, complicate relations with the West.

Mutual suspicions remain the fundamental obstacle to any rapprochement. Yugoslav leaders probably continue to believe that Moscow's eventual aim is to substitute a more amenable regime in Belgrade and to re-establish its old domination of the relationship. The original fight was over the entire system of Soviet operations, and not just a personal quarrel of Tito's with Stalin. The Yugoslavs assert, and probably believe, that the USSR has made no fundamental shift in policy.

The Kremlin, on the other hand, must inevitably have strong suspicions that the Tito group, which displayed independent tendencies long before the break in June 1948, would not be amenable to control or persuasion when its interests conflicted with those of the USSR.

While both sides would obtain some ideological advantages in a rapprochement, these do not outweigh the dangers. From Moscow's viewpoint, a rapprochement would eliminate or at least obscure the challenge of a major deviationist theory and example. It would also discourage Western acceptance of any future potential deviationists from the Orbit and thus dampen the hopes of any Communists so inclined.

These gains might be offset, to the Kremlin, by the unsettling impact throughout the Communist world of the idea that a regime could break from the USSR's control and later return in good standing. Repercussions in the Orbit would probably be less that they would have been a few years ago, because Moscow has since tightened its control and purged most of the Communist leaders in Eastern Europe with nationalistic tendencies. Moscow must always guard, however, against a revival of such tendencies in the Orbit.

For Belgrade, a rapprochement would be one way of removing the country from exposure to Western ideological concepts. This gain would probably be outweighed for Tito, however, by the loss of the regime's independence and world prestige and its self-proclaimed role of "trailblazer" to the "socialist future."

The question is thus finally reduced for the USSR to a consideration of how to offer sufficient guarantees of future good intentions to overcome Tito's fears, and large enough grants of autonomy to satisfy his desire for independence. Any Soviet proposals that were sufficient even to interest Tito would involve a very large concession by Moscow and would be, in effect, a basic change in its strategy. To date, the Kremlin has shown no evidence of adopting such a policy in order to expand its empire.

ADENAUER'S PRESENT POSITION ON THE SAAR CONTROVERSY

Chancellor Adenauer appears ready to resume negotiations with France for a Saar settlement, but insists on some assurance of early French action on the EDC treaty before he publicly commits himself to the concessions he is prepared to make (see map, p. 17). Failure of the two governments to conclude an agreement within the next few months would cost the West what may be its last chance to establish the EDC.

When the French-German bilateral talks on the Saar were suspended in mid-December because of the French presidential elections and the impending Berlin conference, the most troublesome political differences had been largely resolved. Left for discussion, however, were questions relating to the future status of the Saar economy, the duration of the agreement envisaged, and the designation of an international body to administer Saar external affairs. Early this year, however, a special committee of the Council of Europe produced a plan for a settlement which may serve as a basis for reaching agreement on the remaining issues when the bilateral talks resume.

The council's present plan, a revision of that drawn up by the Van der Goes committee last September, offers some concessions to the Bonn government by lifting restrictions on West German business activities in the Saar and by transferring the mines from French control to local direction. The French-Saar customs and currency union is to be maintained, however, pending the creation of a common European currency and market, and the present French-Saar conventions are to be replaced by a single treaty of economic cooperation between the two countries. The terms of these agreements are to be permanent and they are to be reaffirmed in the German peace treaty when it is finally negotiated.

This plan had been favorably received, with some minor reservations, by Chancellor Adenauer, but on 5 February he instructed his delegates to withdraw their support. This manuever was dictated by his preference for secret bilateral talks in which he can secure some additional concessions while concealing his own from the Bundestag until French EDC ratification seems imminent. The chancellor is unwilling to antagonize certain minor coalition party leaders who are hostile to the Saar's permanent loss to Germany, and whose support he now needs as both houses of parliament act on the constitutional amendment legalizing German rearmament.

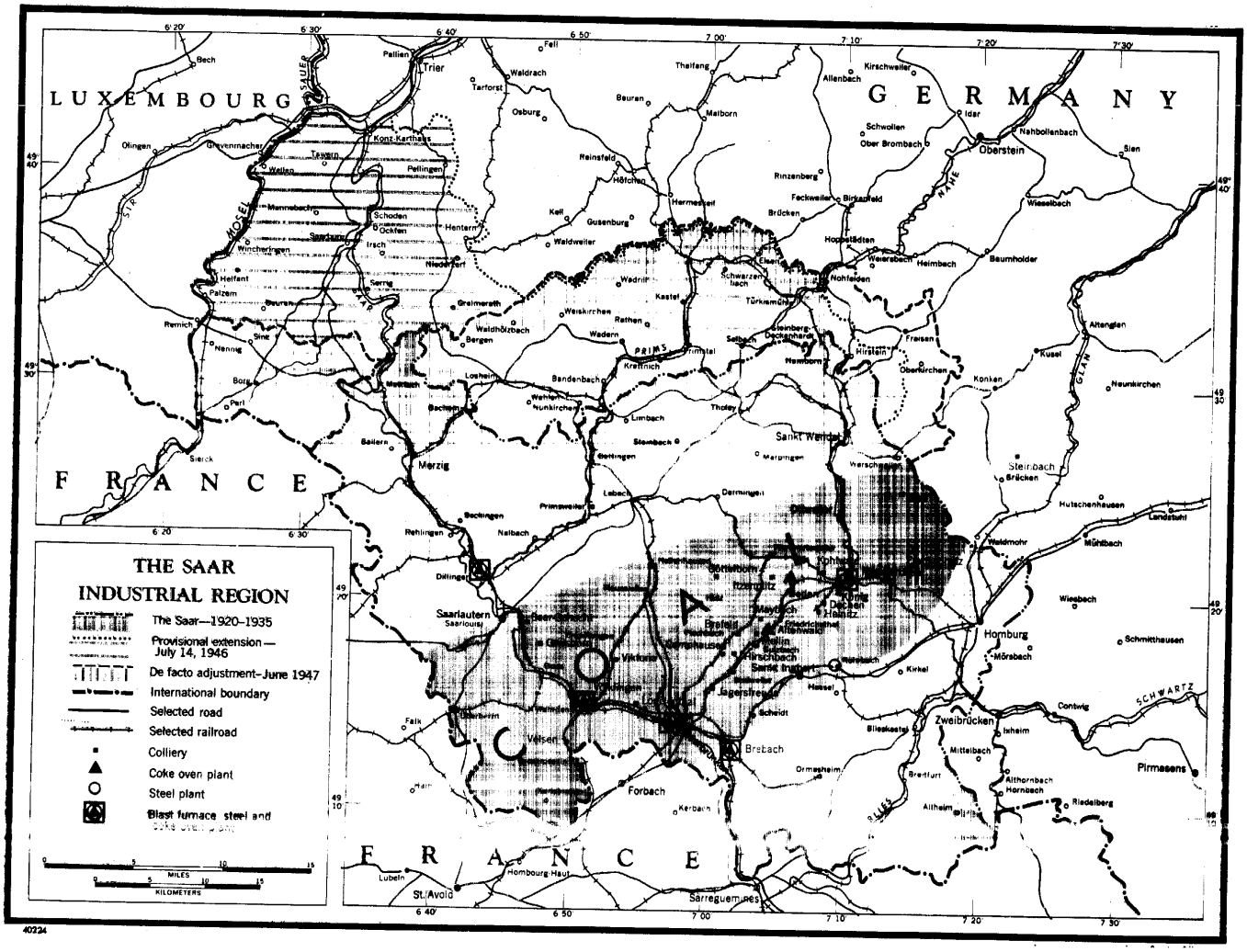
The economic portions of the council's plan go far toward meeting France's demands that its special economic status in the Saar be maintained until there is sufficient progress toward an integrated European economy to make this unnecessary. Owing to the uncertain political situation in Paris, however, there is no assurance that the government will accept the viewpoint of its representatives on the council.

There are indications that Chancellor Adenauer is anxious to speed agreement on a set of principles for a final settlement, and bilateral discussions will almost certainly take place in March. At that time, he is expected to pose the additional condition that the Saar agreement not become effective until EDC is finally ratified by its last signatory power. Among other things, he will probably ask that the Coal-Steel Community and not the Council of Europe, as provided in the council's plan, supervise Saar external affairs until the European Political Community begins to function.

Since none of these points directly affects present French-Saar economic relationships, they should be generally acceptable to France as long as the settlement is permanent, a point which Adenauer will probably be forced to concede.

Adenauer's commitment to the Bonn and Paris treaties as the method of restoring Germany's sovereignty almost forces him to adopt a conciliatory position toward a Saar settlement. Since such a settlement involves the permanent loss of the Saar however, domestic political considerations force him to seek French assurances of early EDC ratification which he can point to as a compensating advance toward the unification of Western Europe.

The French government's ability to give such assurances remains problematical. There is general agreement in Paris that a Saar settlement is an indispensable precondition for assembly action, and Foreign Minister Bidault has now reportedly written Adenauer suggesting the resumption of French-German negotiations. But such complicating factors as the recent course of the Indo-china war and the forthcoming Geneva conference make it somewhat harder for the government to give Adenauer the promises he seeks.



NEW DIFFICULTIES EXPECTED IN SOUTH KOREAN AID PROGRAM

President Rhee's sensitiveness on American control, his misunderstanding of economic problems, and his mistrust of Japan are expected to create new difficulties for the American aid program and may cause a diversion of dollar funds to uneconomic projects.

The aid agreement, which, together with UN and other miscellaneous assistance, will provide a $400,000,000 program for the current fiscal year, was signed on 14 December after more than three months of negotiations. The talks were complicated by Rhee's insistence that the United States guarantee a permanent exchange rate, that South Korea control all procurement contracts, and that the use of independent South Korean foreign exchange funds not be subject to joint control.

Rhee apparently believes that American aid was "promised" him in return for accepting the armistice and has demanded on several occasions that the money be "turned over to Korea as promised." Coupled with his desire to obtain maximum economic concessions from the United States, these misconceptions prolonged the talks and threatened a stalemate. To avoid this the pact was finalized by glossing over some important issues, which now remain as sources of dispute.

Rhee believes that inflation will be checked by his announcement of a permanent exchange rate and by stopping the printing of currency. He solidified his position on the exchange rate by inserting the word "permanent" in the non-official Korean text of the agreement and publishing it as the official version. The issue is bound to come to a head next June when the rate will probably have to be revised.

He also looks on the aid program primarily as a means of building up Korea's industrial plant and ignores the equally important objective of checking inflation and maintaining financial stability through a consumer goods program. American officials believe that South Korea is again threatened with severe inflation, and that some shifts in Korean aid funds from investment to salable goods are necessary despite the probably violent objections of Rhee.

Seoul has been unwilling to accept the agreement's concept of partnership and refuses to use its own foreign exchange in countering inflation. Considerations of sovereignty and prestige are resulting in a diversion of South Korean dollar funds into wasteful projects. Arrangements have

apparently been completed for the purchase of powerful American-made short- and medium-wave transmitters costing more than $1,000,000 to be used in a world-wide propaganda campaign. American experts believe that this campaign will be made largely ineffective by technical difficulties, poor maintenance, and Communist jamming.

Without seeking American advice, the South Korean government recently spent $6,600,000 in an attempt to build an ocean-going merchant marine. Seoul is reportedly considering the expenditure of dollar funds for such other impractical projects as a trans-Pacific airline, an advanced institute of technology, an oil refinery, and facilities to manufacture steel, explosives, and electronic tubes.

Rhee wants to reduce South Korea's economic dependence on Japan and prevent the latter from gaining any benefits from the aid program. To his long-standing fear that Tokyo has not abandoned its designs on Korea has been added the belief that Japan has prospered from American purchases in a war which ravaged Korea.

Because of his intense anti-Japanese bias, Rhee is seeking to block the spending in Japan this year of between $75,000,000 and $100,000,000 by the United States.

Rhee probably calculates that the United States will not abandon South Korea because this would mean the sacrifice of its heavy investment. He therefore uses the aid program as a bargaining weapon to secure American support for other projects, such as a larger South Korean army, a navy and air force, and an Asian anti-Communist pact. It is essential from Rhee's viewpoint to secure a controlling voice in the economic programs

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While South Korea periodically attacks the UN program, Rhee has recently ordered the press to concentrate its criticism on the American program because of his personal friendship for the UN aid administrator. By inserting nationalistic issues into the aid program, by charging United States officials with "insincerity," and by campaigning for Economic Coordinator Tyler Wood's recall, Rhee is building up anti-American resentment. Thus, he may hope to distract public attention from his own authoritarian methods, which might otherwise induce South Korean voters to back a more pro-American leadership.

RECENT OPTIMISM OVER MALAYAN SECURITY UNWARRANTED

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The reduction of terrorism in Malaya as part of a Communist tactical shift has created the unwarranted impression of an improved situation. The Communists continue to hold the military initiative, and the British have been unable to counter their infiltration.

The Communists in mid-1952 began to reduce terrorism and emphasize subversion, and the government claimed credit for the decreased military activity. The government's position, however, was privately described early this month as no better than three years ago, and recent official statements have emphasized that the end of the emergency was not in sight. The authorities have shown much concern over a cut in police strength, caused by budgetary difficulties arising from the business recession in Malaya. 25X1

[redacted]

25X1 [redacted] Terrorism has increased slightly since November, but the main Communist emphasis remains on subversion. The greatest danger may lie in the possibility that the Communists will reduce hostilities and force an end to the state of emergency, leaving the British wholly unprepared to cope with an underground organization which could link itself to the non-Communist independence movement.